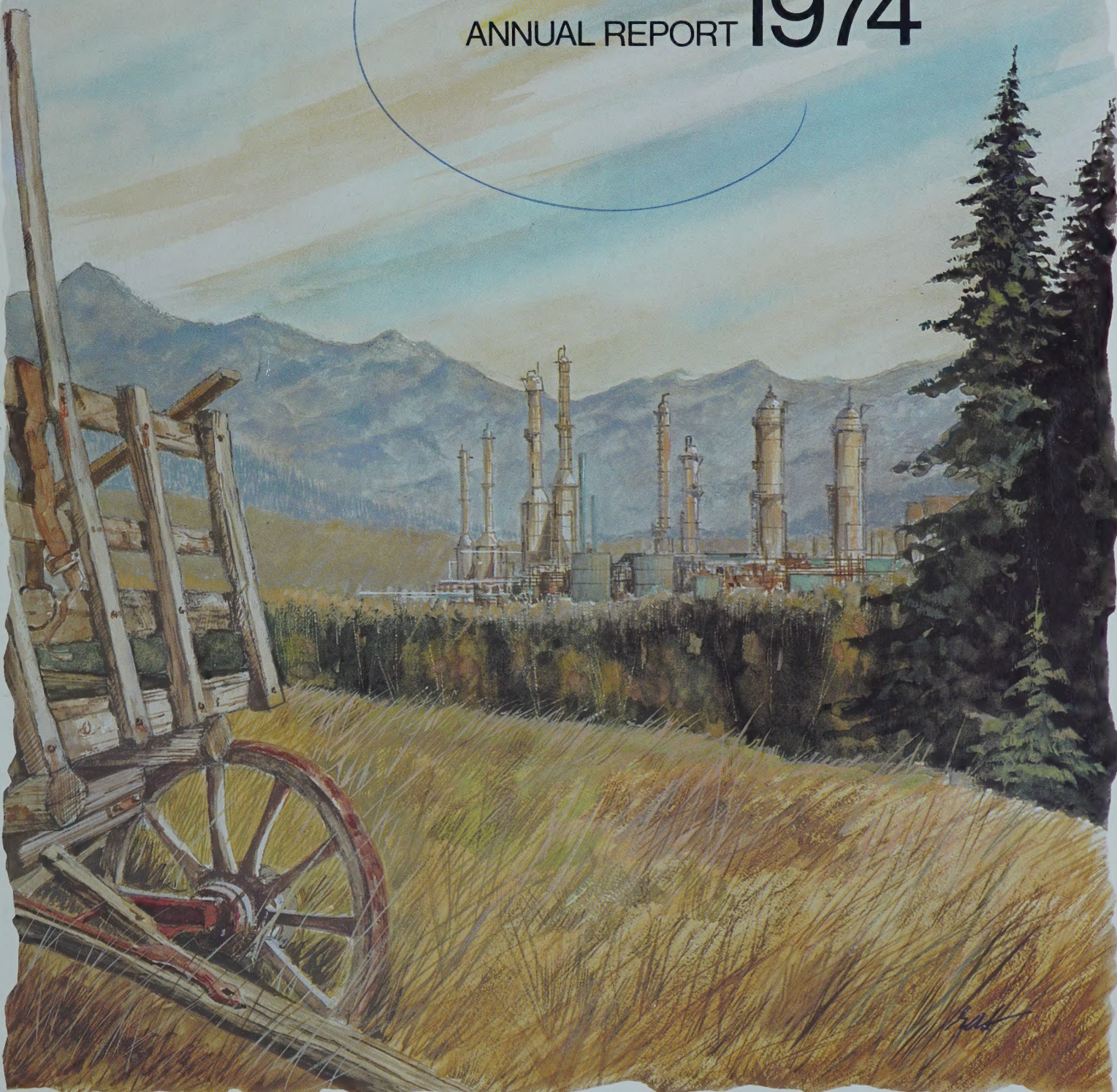


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WESTERN DECALTA 1974

ANNUAL REPORT



Western Decalta Petroleum Limited
and Subsidiary Companies

Summary of the Year 1974

	1974	1973	Increase (Decrease) Per Cent
Financial			
Gross income	\$ 14,430,000	\$ 10,316,000	39.9
Cash flow	9,785,000	6,750,000	45.0
Per share	1.19	0.82	
Depreciation and depletion	3,955,000	3,381,000	17.0
Income taxes	1,925,000	1,070,000	79.9
Net income	3,478,000	2,091,000	66.3
Per share	0.42	0.25	
Working capital	834,000	1,803,000	
Exploration & development expenditures	\$ 11,484,000	\$ 13,210,000	(13.1)
Operating			
Gross production (before deducting royalties)			
Oil and natural gas liquids — barrels	3,065,000	3,126,000	(2.0)
Daily average — barrels	8,396	8,565	
Natural gas sales — millions cu. ft.	7,355	7,379	(0.3)
Daily average — millions cu. ft.	20.2	20.2	
Net production (after deducting royalties)			
Oil and natural gas liquids — barrels	2,196,000	2,586,000	(15.5)
Natural gas sales — millions cu. ft.	6,112	6,486	(5.8)
Proven and probable additional reserves (before deducting royalties)			
Oil and natural gas liquids — barrels	35,564,000	36,528,000	(2.6)
Natural gas — mcf	228,000,000	217,000,000	5.1
Sulphur — long tons	647,000	645,000	0.3
Land holdings			
Gross acres	22,775,000	22,897,000	(0.5)
Net acres	10,058,000	10,110,000	(0.5)

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Corporate	Back Cover

Annual Meeting

The annual meeting of shareholders of the Company, will be held at the Royal York Hotel, Toronto, Ontario, on April 24, 1975 at 10:00 a.m. local time. A formal notice of the meeting, together with a proxy form and information circular, is enclosed with this report.

Report to the Shareholders

1974 Financial Results

Western Decalta's earnings were \$3.5 million, an increase of \$1.4 million over 1973. Earnings per share were \$0.42 in 1974, compared with \$0.25 in 1973. Earnings were 17.6% of gross sales revenues in 1974 compared with 17.5% in 1973.

The earnings reported for 1973 have been adjusted to reflect tax allocation accounting; such changes being more fully described in the financial section of this report.

Gross income at \$14.4 million increased by \$4.1 million over the previous year. Improved product prices (\$8.1 million) were partially offset by slightly lower product volumes (\$0.2 million) and much higher royalty payments (\$3.6 million) resulting primarily from Alberta's royalty structure changes in 1974. Interest and other income was \$0.2 million lower.

Cash expenses at \$4.6 million increased by \$1.1 million as a result of higher operating costs and interest charges on borrowed funds. Cash flow from operations totalled \$9.8 million in 1974, (\$1.19 per share) compared with \$6.7 million (\$0.82 per share) in 1973. Non-cash expenses totalled \$3.9 million in 1974 up \$0.6 million; income taxes rose from \$1.1 to \$1.9 million.

Decalta's capital and expense outlays to maintain production from presently developed petroleum reserves and to find, develop and acquire additional reserves totalled \$11.4 million in 1974 (\$13.2 million in 1973). Acreage acquisition costs amounted to \$6.1 million and productive drilling, \$2.1 million. Decalta conducts petroleum exploration and production activities in the United States and overseas through its 93.6% owned subsidiary, Decalta International Corporation ("D.I.C."). In 1974, this corporation acquired a 66.7% share of the U.S. producing and exploration properties of the Hickerson Oil Company at a cost of \$3.7 million.

Production and Reserves

Gross production of crude oil and natural gas liquids totalled 3.1 million barrels in 1974 or 8,396 barrels daily; this was 61 thousand barrels or 169 barrels daily lower (2%) than in 1973. Gross sales of natural gas totalled 7,355 million cubic feet in 1974 compared with 7,379 million in the previous year. The Company's production of hydrocarbons by major producing provinces and states is shown on a gross and net basis on pages 6 and 7 of this report together with comparative product prices received.

The Company's gross proven and probable additional reserves of crude oil and natural gas liquids totalled 35.6 million barrels at the end of 1974 down 2.6% from 36.5 million barrels in 1973. Natural gas reserves, found and acquired, more than replaced production with remaining reserves at the year end amounting to 228 billion cubic feet (217 billion last year), up 5.1%.

Exploration and Development

At the year end, Decalta held varying interests in 22.8 million gross acres equivalent to 10.1 million net or wholly-owned acres. In total, the over-all acreage position changed little from last year, however there were minor variations in the land holdings in certain areas.

During 1974, development and exploration drilling was largely concentrated in Alberta; of the 58 gross completions, 41 were drilled in Alberta resulting in 26 gross (10.2 net) oil and gas producers. Further details of the results of Decalta's 1974 drilling program, both in Alberta and the United States, are presented on page 15. Under seismic-drilling option farm-out agreements, the Company obtained evaluations of its properties in New Brunswick and at Great Bear Lake in the Northwest Territories. The Company also participated in a seismic program offshore Labrador.

In the offshore Louisiana and Texas area of the Gulf of Mexico, D.I.C. acquired interests in an additional 5 tracts for a cumulative total of 16 tracts to date. Following the drilling of 31 evaluation tests in 1973 and 1974, five platforms have now been ordered. Gas production from the various tracts in the Gulf is expected to go on stream by 1977 providing there is no undue delay in obtaining drilling rigs and pipeline material.

In Southern Sumatra, Indonesia, D.I.C. has a 15% interest in a 67,800 acre Technical Assistance Contract Area. The first exploratory test found 50° API oil at 1,373 feet. Two subsequent exploratory holes were dry. Two step-out wells from the discovery well were successful and a third one was abandoned. Development drilling is being continued.

Offshore Puerto Barrios, Guatemala the first of two wells is now drilling. D.I.C.'s interest is 8-2/3% of the cost of drilling for a 4-1/3% working interest in 611,500 acres. In Belize, offshore and joining the Guatemala acreage to the north, D.I.C. has the right to earn an 8-1/2% interest in 979,000 acres by conducting a seismic program, which is about to commence.

In the U.K. North Sea, a dry hole was drilled on Block 210/19 in which Decalta has a 5% interest. In the Philippines, D.I.C. participated in a seismic survey within a 1,000,000 acre block in the Sibuyan Sea. D.I.C. can earn a 36% interest in the block by participating in the drilling of a well.

The Industry

So much has been written in Canada about the confrontation between the federal and provincial governments as to sharing of revenues of the resource industries and particularly the petroleum industry, that it becomes redundant to restate all of the difficulties involved. Suffice to say that, at a time when maximum efforts should be in hand to replenish the country's rapidly declining petroleum resources, political and fiscal restraints have resulted in inertia and uncertainty. The Canadian federal budget of May 6, 1974 was destructive in its impact on petroleum investment. The revised federal budget of November 18, 1974 and the December 12, 1974 announcement by the Premier of Alberta only went part of the way in alleviating that impact. Seismic and drilling activity in Canada is on the decline; of particular concern is the exodus of specialized personnel and equipment to other parts of the world where the investment climate is more favourable. Many of the drilling rigs leaving Canada for Alaska, the United States and overseas are those capable of drilling areas in Canada most likely to reveal large deposits of much needed conventional hydrocarbons. By contrast, in the United States, 1975 projections indicate an increase of 9,000 wells over those drilled in 1974; this is indicative of the relatively favourable


investment treatment accorded the industry in the United States where a reasonable portion of the product realization is passed through to the producer and explorer. This Company is most conscious of this aspect and acquisitions of properties in the United States which started early in 1973, before the Canadian governmental problems arose, have been pursued with vigor.

In the long term, Canada has the potential for large reserves of energy from conventional oil and gas, tar sands, heavy oils and coal — more than sufficient to meet the requirements of Canadians for decades to come. Decalta will continue to explore for these resources in Canada in the expectation that the two levels of government will soon realize the urgency of abandoning decisions based on political expediency which have sabotaged the security of Canada's energy future. It is hoped that these governments will turn their attention to the creation of a political and fiscal environment which will foster the discovery and development of vitally needed energy reserves.

Employees

We wish to express our appreciation to all employees for their individual contributions to the Company. The dedication and skills of our people, who serve both in Canada and the United States, have been a most important factor in another successful year of operations.

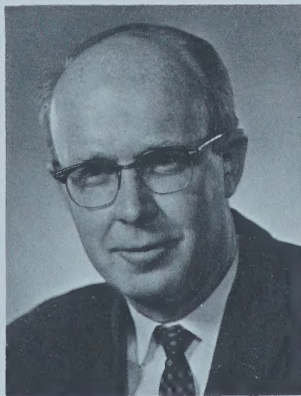
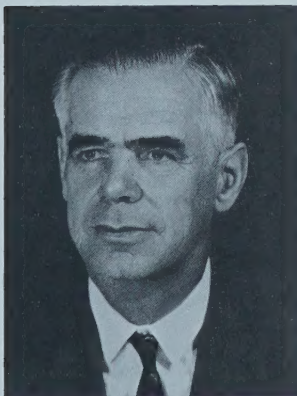
On behalf of the Board of Directors



Chairman of the Board
and Chief Executive Officer



President



Corporate Profile



Since its incorporation under the laws of Canada in 1947 as "Decalta Oils Limited", the organization has had two name changes, becoming "Canadian Decalta Gas and Oils Limited" in 1952 and "Western Decalta Petroleum Limited" in 1955. The name changes were co-incident with changes in the Company's capital structure.

Since 1952, the Company actively acquired additional reserves of oil and gas and other assets through cash outlays and capital stock distribution. One indication of the Company's growth during the period is that Net Oil and Gas Sales totalled \$24,000 in 1952 and \$14,266,000 in 1974.

Historically, the Company's major base of operations has been in Canada and particularly in the Province of Alberta. In recent years however, it has expanded its petroleum exploration and production activities in the United States and to overseas areas such as Indonesia, Guatemala, the Philippines and the U.K. North Sea. The vehicle for the Company's United States and overseas activities has been a 93.6% owned subsidiary, Decalta International Corporation.

Western Decalta's 8,208,425 outstanding shares are held by 6,478 shareholders. Individuals and corporations with Canadian addresses hold 88% of the outstanding shares while the remainder is held primarily by United States citizens. The major shareholder is Hudson Bay Mining and Smelting Co. Limited of Toronto, Ontario; such corporation beneficially owns 35.5% of the Company's outstanding common shares.

On March 10, 1975, the Board of Directors declared Western Decalta's first dividend. The dividend of 10¢ per share on the outstanding common shares will be payable on April 11, 1975 to shareholders of record at close of business on March 31, 1975.

In this Annual Report, all figures and interest shown for "Decalta" or "the Company", unless otherwise stated, represent the consolidated total of Western Decalta Petroleum Limited and its subsidiaries for the year 1974.

Range of Market Prices on Common Shares:

	Year	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
		High	Low	High	Low	High	Low	High	Low
Toronto Stock Exchange	1973	6¾	5¼	5⅝	4¼	7⅞	5.00	8½	5¾
	1974	8¾	7.00	7⅝	5⅞	6¼	3⅞	4¾	2½
American Stock Exchange	1973	6¾	5⅞	5⅝	4.00	7⅞	5.00	8½	6.00
	1974	8½	6¾	7⅝	5⅞	6¾	3⅞	4¼	2⅝

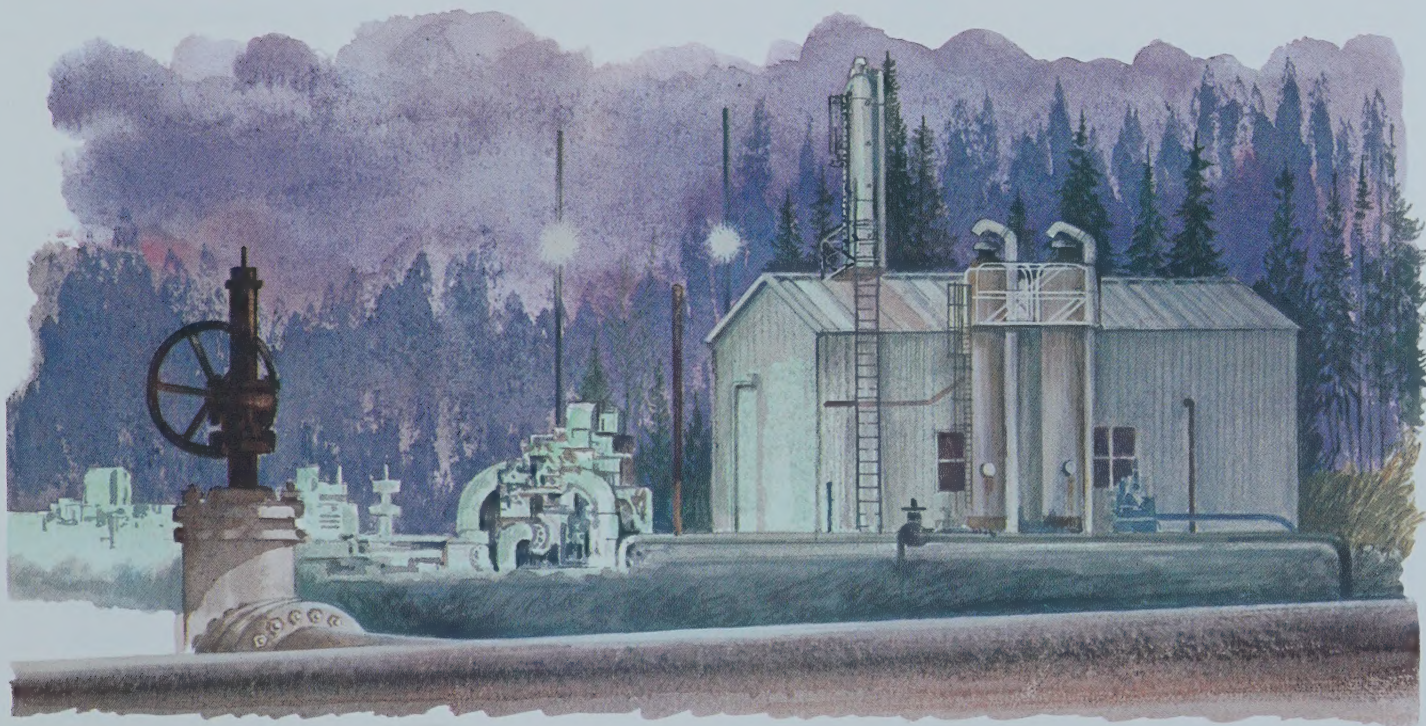
Review of Operations

Exploration and development expenditures, including both capital and expense items, totalled \$11.4 million in 1974 compared with \$13.2 million in 1973. Outlays for both productive and exploratory acreage amounted to \$6.1 million down from \$9.2 million the previous year when interests were acquired in 11 Texas offshore tracts for \$7.2 million. The 1974 expenditure includes two outlays in the United States by a subsidiary, Decalta International Corporation, firstly, the acquisition of part of Hickerson Oil Company's producing and exploration properties for \$3.7 million and secondly, the subsidiary's share of the costs of acquiring interests in five additional tracts offshore Texas and Louisiana for \$1.1 million. Drilling costs resulting in wells capable of production increased by \$1.5 million in 1974 to \$2.1 million; such drilling being largely concentrated in Alberta.

During 1974, Decalta continued its policy of maintaining its Canadian productivity and reserve position, while taking progressive steps toward the building of a significant income base in the United States. It is expected that by 1977, revenues derived from its gas properties in the Gulf of Mexico, will be contributing materially to the income base. During 1974, the Company also participated in several overseas ventures more fully described later in this report.

Production

In past years, Decalta has reported its production of crude oil, natural gas liquids and natural gas in terms of its net working interest in barrels or cubic feet of natural gas, after deducting royalties. Owing to the continual change of governmental royalties in Canada, it is felt advisable to report production in 1974 on both a gross (before royalties) and a net (after royalties) basis.



Crude Oil and Natural Gas Liquids

The Company's gross production of crude oil and natural gas liquids amounted to 3,065,000 barrels in 1974, a decrease of 61,000 barrels or 2%. From the accompanying table, it will be noted that production from Canadian sources declined by 79,000 barrels including 12,000 barrels attributable to the disposition of the Company's marginal producing properties in New Brunswick. Apart from declines in productivity from a number of fields in Alberta, high prices for Canadian crude to the midwest United States refineries (\$12.00 per barrel including the \$5.50 per barrel export tax) tended to reduce demand for Alberta crude particularly in the fourth quarter of 1974. During 1975, further declines can be anticipated as the Canadian government implements plans to gradually reduce exports of crude oil to the United States.

CRUDE OIL AND NATURAL GAS LIQUIDS

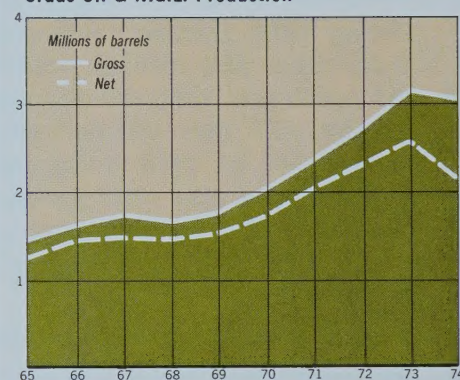
(In thousands)

	Gross	Barrels*	Net	Barrels**
	1974	Change from 1973	1974	Change from 1973
Canada:				
Alberta	2,631	-71	1,891	-338
British Columbia	61	+ 4	34	- 11
Saskatchewan	115	—	54	- 43
New Brunswick	—	-12	—	- 11
	<u>2,807</u>	<u>-79</u>	<u>1,979</u>	<u>-403</u>
United States:				
California	92	- 1	76	- 1
Montana	62	-17	53	- 16
North Dakota	39	+31	34	+ 27
Oklahoma	7	+ 5	5	+ 4
Texas	26	- 5	21	- 5
Wyoming	32	+ 5	28	+ 4
	<u>258</u>	<u>+18</u>	<u>217</u>	<u>+ 13</u>
	<u>3,065</u>	<u>-61</u>	<u>2,196</u>	<u>-390</u>

* Before deducting royalties.

** After deducting royalties.

Crude Oil & N.G.L. Production



Decalta's net production of crude oil and natural gas liquids amounted to 2,196,000 barrels, a decrease of 390,000 barrels (15%) from 2,586,000 barrels in 1973. The decrease is primarily attributable to the higher royalty rates imposed in Alberta, British Columbia and Saskatchewan. While gross production declined in these three areas by 67,000 barrels, net production (after royalties) declined by 392,000 barrels.

Average prices per barrel received by Decalta before royalties for its crude oil and natural gas liquids production during 1973 and 1974 were:

	Canada	U.S.A.	Average
1973	\$3.31	\$3.36	\$3.31
1974	\$5.65	\$6.67	\$5.73

The price increase in Canada was largely offset either by higher royalties or taxes, while in the United States royalties and taxes remained relatively constant. A higher price for Canadian crude oil is expected to be realized as a result of the federal-provincial first ministers' meeting to be held in April, 1975.

Natural Gas

Decalta's gross sales of natural gas in 1974 totalled 7,355 million cubic feet compared with 7,379 million in 1973. The decline of 656 million cubic feet in gas deliveries from Ontario (see accompanying table) resulted from a curtailment of production during a seven month labor strike at the processing plant; this decrease was largely offset by additional production in Alberta and Oklahoma.

Net gas sales (after royalties) declined by 374 million cubic feet (5.8%) to 6,112 million cubic feet. The decrease reflects the loss of gross deliveries described above; the increase in Alberta royalties on natural gas, the disposition of producing properties in New Brunswick; all of which was partially offset by additional production in the United States.

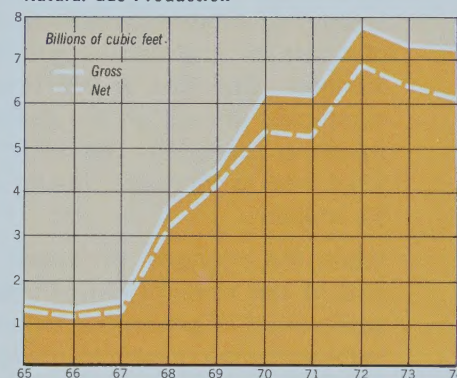
NATURAL GAS

	Gross MMCF*		Net MMCF**	
	1974	Change from 1973	1974	Change from 1973
Canada:				
Alberta	5,599	+240	4,624	- 73
British Columbia	30	—	29	+ 1
New Brunswick	—	- 81	—	- 77
Ontario	683	-656	613	-589
Saskatchewan	38	- 12	37	- 6
	6,350	-509	5,303	-744
United States:				
California	25	- 1	21	+ 1
Oklahoma	646	+583	504	+453
Texas	92	- 20	78	- 17
Utah	7	+ 2	6	+ 2
Wyoming	235	- 79	200	- 69
	1,005	+485	809	+370
	7,355	- 24	6,112	-374

*Before deducting royalties.

**After deducting royalties.

Natural Gas Production



The British Columbia government has removed its royalty on natural gas. In lieu thereof, a Provincial corporation now purchases and markets all natural gas produced in the Province retaining the difference between the selling price and the amount it pays the producers which currently is 22¢ per mcf for "old" gas and 33¢ for "new" gas.

Average prices per thousand cubic feet (mcf) received by Decalta for its natural gas, before royalties, during 1973 and 1974 were:

	Canada	U.S.A.	Average
1973	19.3¢	19.1¢	19.2¢
1974	24.0¢	34.5¢	25.5¢

By year end 1974, the Company had renegotiated price increases on almost all of its present gas production with provisions for further price redetermination in 1975. On its uncommitted gas, the Company has received offers ranging between 60 - 65¢ per mcf in Canada and between 51 - 90¢ per mcf in the United States. Effective January 1, 1975, the Canadian Federal government increased the price of natural gas exported to the United States to \$1.00 per mcf. The method of allocating these revenues to producers serving both the domestic and export market has yet to be determined.

While the Company anticipates substantial increases in the prices received for its Canadian gas production during 1975 and 1976, the shareholder is cautioned that after the payment of royalties and taxes, the Company only realizes approximately 20% of the price increment to meet increasing operating costs and to provide funds necessary to find and develop new reserves; the balance of the price increases goes to governments.

Royalty Changes

During 1973 and 1974 the governments in the provinces of Alberta, British Columbia and Saskatchewan enacted legislation which substantially increased their share of oil and gas revenues through higher royalties, taxes and other means. As will be noted from the accompanying schedules, properties located in Alberta contribute 94% of the Company's Canadian production of crude oil and natural gas liquids and 88% of its Canadian natural gas volumes. Changes in this Province's royalty structure therefore has a significant impact on the Company's net production (after royalties) and the resulting revenues. The effect of these changes on the Company during 1974 was to increase royalty payments to Alberta by an amount close to \$3 million.

While the changes, proposed or implemented, in Alberta's royalty structure and in the Federal Governments income tax structure are complex, a summation is presented below. More drastic royalty tax changes were initiated by the provincial governments of British Columbia and Saskatchewan. However as Decalta's production in these provinces is not material, such changes are not discussed in this report.

- Effective January 1, 1973, Alberta raised the maximum royalty on crude oil production from most leases to 25% from 16-2/3%. On older leases, the producer was given an option to pay the new higher royalty or to pay a mineral reserves tax which when added to the old royalty equated to the new higher royalty. These changes were to be in effect for five years.
- Effective January 1, 1974, the mineral reserves tax option was withdrawn and all production from Crown acreage was subject to the new higher royalty. On the same date, an increased royalty on natural gas, related to price, was instituted.
- Effective April 1, 1974, a supplemental crude oil royalty was imposed on all price increases over \$3.80 per barrel. For "old" oil the rate imposed was 65% and for "new" oil, 35%.
- On May 6, 1974, the Federal budget proposed a revised income tax structure for the oil industry, which, for the first time, included as taxable income, all royalties or like amounts paid by producers to provincial governments. The proposals also called for the elimination of the immediate expensing of development and exploration costs, statutory depletion and a reduction in the amount of earned depletion which could be used in any one year. The Federal income tax rate was reduced from 40% to 30%. In combination, these moves threatened the viability of the industry both in Alberta and in Canada.
- The November 18, 1974 Federal budget continued the proposal to include all royalties, rentals and other payments to provincial governments as taxable income but modified the Federal portions of the income tax rate from 30% in 1974 to 28% in 1975 and to 25% in 1976 and thereafter and reinstated the provision for immediate expensing of exploration costs.

- On December 12, 1974, the Alberta government proposed several changes to its royalty and corporate tax system. One change had the effect of reducing royalties by approximately 10%; another reduced the producers' tax liability to the Alberta government. A further change returned to the producer an amount equal to the federal tax on royalties up to a maximum of \$1 million per company as defined and the existing exploratory drilling incentives were improved. The government indicated that the supplementary royalty on crude oil may also be reduced.

While these most recent moves by the Federal and Alberta governments have provided some relief, further modifications are required if the industry is to generate sufficient funds for vigorous exploration activities.

Reserves

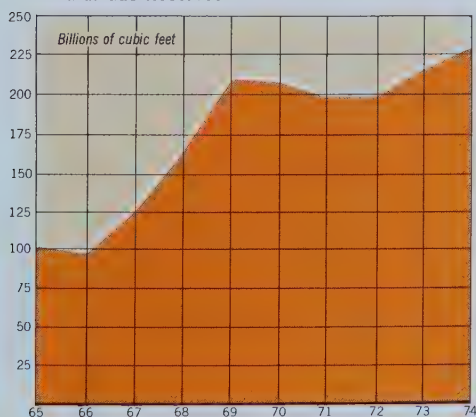
Decalta's proven and probable reserves at December 31, 1974 (before deducting royalties), are shown in the accompanying table. Additions to natural gas reserves exceeded withdrawals, while additions to the Company's crude oil and natural gas liquids reserves did not make up for the volumes produced. The Company has not included in its reserves of natural gas and natural gas liquids, its interests in the Texas and Louisiana offshore tracts, pending further delineation of the various structures.

The Company's gross proven and probable reserves of crude oil and natural gas liquids at year end were estimated at 35,564,000 barrels, a decline of 964,000 barrels (2.6%). Natural gas reserves rose by 11 billion (5.1%) to 228 billion cubic feet at year end. Sulphur reserves were estimated at 647,000 long tons (645,000 long tons last year).

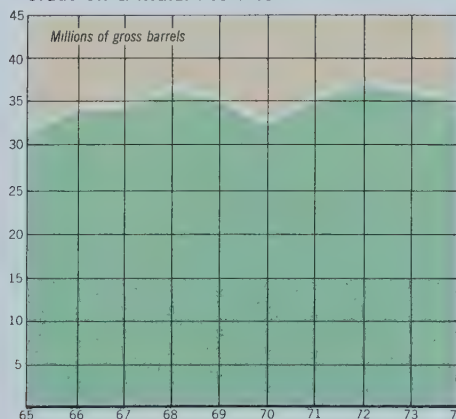
RESERVES

Estimated proven and probable additional, before deducting royalties	December 31	
	1974	1973
Oil and natural gas liquids (bbls.).....	35,564,000	36,528,000
Residue natural gas (mcf)	228,000,000	217,000,000
Sulphur (long tons)	647,000	645,000

Natural Gas Reserves



Crude Oil & N.G.L. Reserves






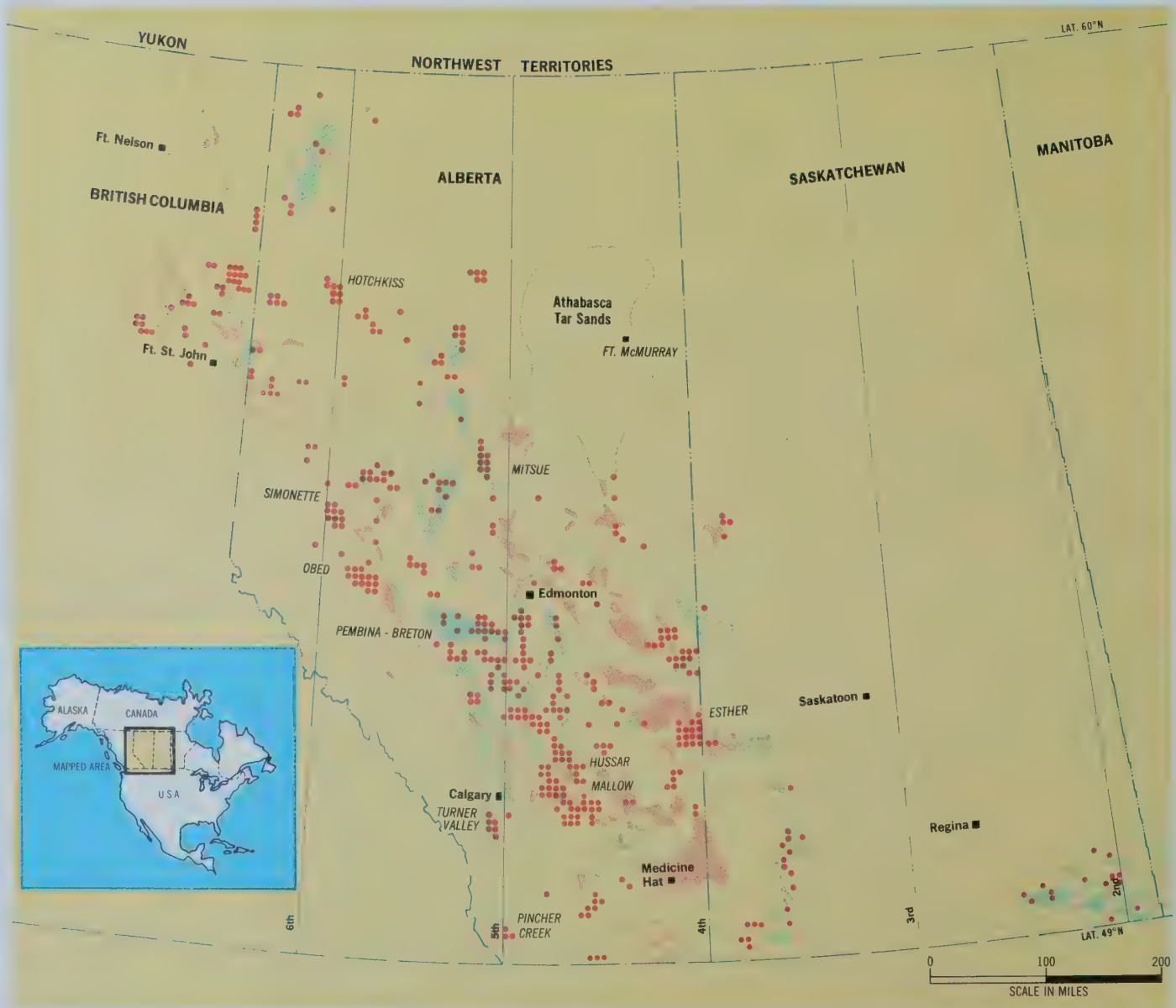
Exploration

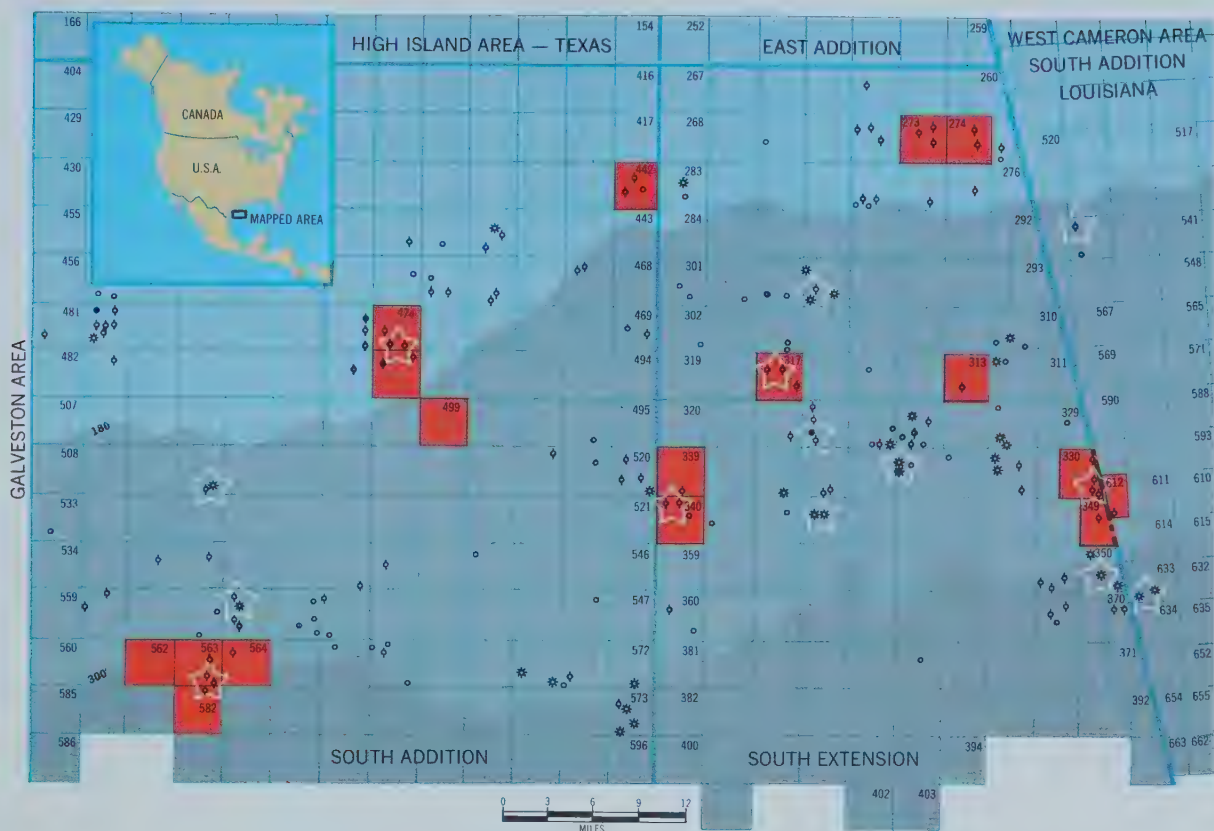
Canada

Development and exploration drilling has been mainly concentrated in Alberta, where it has been marked by a high success ratio. Of the 41 wells in which Western Decalta participated, 26 wells were successful. Discoveries have provided several areas for further development, such as Hotchkiss (250 miles north of Edmonton), Esther (east of Calgary), Buck Lake and Pembina (west of Edmonton) and others. At Great Bear Lake, in the Northwest Territories, at year end, a well was drilled at no cost to the Company on a 562,000-acre property; this well was subsequently abandoned. In New Brunswick, a seismic survey has been completed at no cost to the Company on certain prospective lands. The Company has also participated in a seismic program offshore Labrador, where the Company has a 50% interest in 1,171,000 acres of which 285,000 acres are located 30 miles north of the Bjarni well which has discovered gas and condensate.

WESTERN CANADA — LAND HOLDINGS AREAS

-  Township within which Decalta holds an Interest
-  Oil Field
-  Gas Field





TEXAS & LOUISIANA - OFFSHORE

- ☆ Drilling Platform Ordered
- Decalta varying interests in 90,229 acres
- Location or Drilling
- ⊙ Well Drilled - Status Confidential
- ⊛ Gas Discovery
- Oil Discovery

DECALTA INTERNATIONAL CORPORATION

Exploration in the United States and certain overseas areas is conducted by the Company, through its subsidiary, Decalta International Corporation, referred to as "D.I.C."

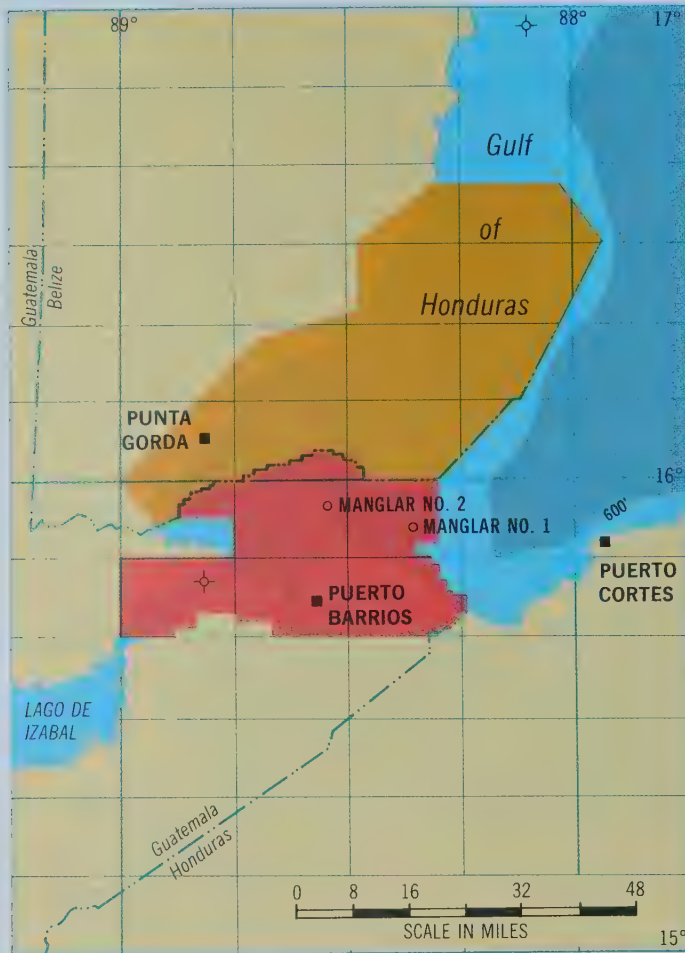
United States

Offshore Texas and Louisiana

In the offshore Texas area of the Gulf of Mexico, D.I.C. is continuing to participate in additional acquisitions, obtaining interests in 5 tracts in 1974 for a cumulative total of 16 tracts to date. It has now participated in a total of 31 wells drilled offshore Texas. Five platforms have been ordered with delivery of the first platform expected in the summer of 1975. The Federal Power Commission has recently increased the price which can be paid for interstate gas to 51¢ per Mcf. In addition, it would appear that the Company could be eligible for the special small producer category, and therefore, could receive in the order of 50% more, or approximately 77¢ per Mcf. Prices are expected to advance further by the time (probably 1977) that gas can be sold in volume from these properties. It is anticipated that these properties will make a significant contribution to D.I.C.'s cash flow, commencing in 1977.




★ LAND HOLDING AREAS




GUATEMALA - BELIZE

GUATEMALA

 4 1/3% in 611, 500 acres subject to drilling

BELIZE

 8 1/2% in 979,000 acres subject to drilling

○ Location
⊕ Abandoned



Overseas

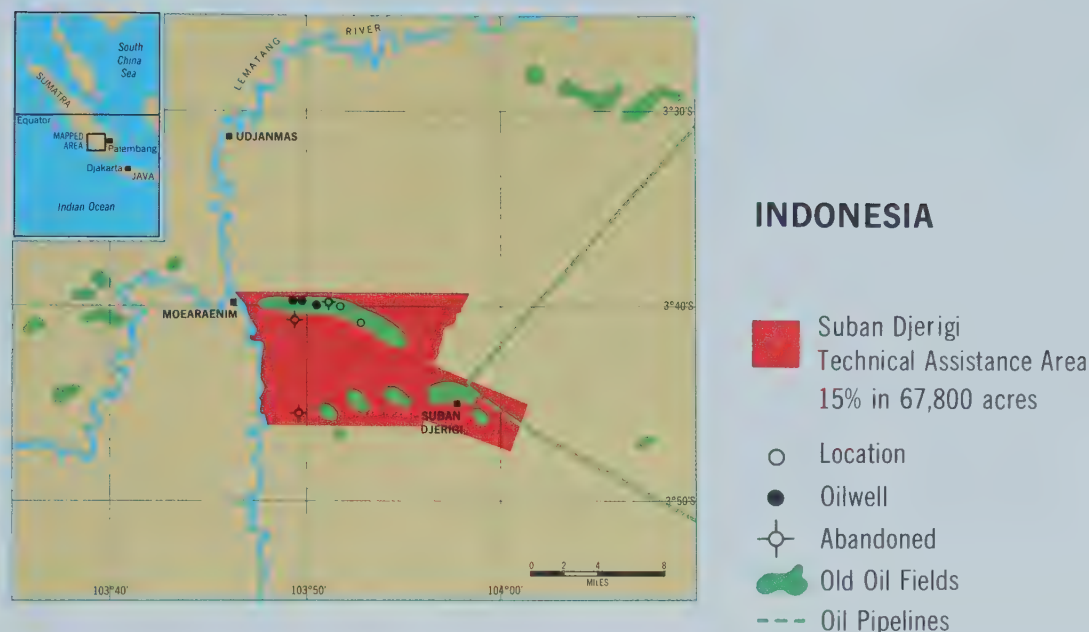
Guatemala

Following seismic and preparatory work, the first of two wells (Manglar No. 1) is expected to spud early in March, 1975, offshore Puerto Barrios. The evaluation wells will be drilled to 6,500 feet and will test the Rio Dulce formation (Lower Miocene). D.I.C.'s interest is 8.67% of the cost of drilling for a 4.33% working interest in 611,500 acres.

In Belize, offshore and joining the Guatemala acreage to the north, D.I.C. has the right to earn an 8.5% interest in 979,000 acres by paying a share of the cost of a seismic program, which is about to commence. This acreage may be held beyond December 31, 1975 provided a well has been drilled or is drilling.

Philippines

During 1974 two generations of seismic were conducted on the Sibuyan seismic option. This seismic option covers an area slightly in excess of 1,000,000 acres. D.I.C. group must elect by June 30, 1975, to either drop the option or drill to earn a 90% interest in the acreage. Currently the detailed seismic is being replayed in order to reach this decision. D.I.C.'s interest in this project is 40%.



Indonesia

Prior to completion of detailed seismic surveys and the start of the first-well in Southern Sumatra, D.I.C. and associates sold 25% of their interest in the project to the Toyo Oil Corporation for a significant cash settlement. D.I.C. retains a 15% interest in the 67,800 acre Technical Assistance Contract area. Early in 1974 a detailed seismic survey was conducted over some of the prospects revealed in the initial survey. The first well, Kampong Minyak No. 1 was completed as an oilwell from a sand at 1,373 feet. During a brief test, the well flowed at a rate equivalent to 408 bbls. per day of 50° API crude.

The second well, Liling Langoe No. 1, was drilled to a total depth of 8,645 feet and was abandoned as a dry hole as was the third well, Kampong Minyak No. 2, drilled southwest of Kampong Minyak No. 1 on a separate prospect. The rig was then moved onto the Kampong Minyak structure to drill evaluation wells so that the scope of the development program could be ascertained. At year's end, the first of these wells, KM No. 55/24-77, was completed as an oilwell. Subsequent to this, and up to February 1, 1975, two additional wells have been drilled resulting in one oilwell and one dry hole. Testing of the successful wells is underway to assist in determining the future program for this area. Until payout is reached, 35% of the value of the production is paid to the contracting parties at the crude oil export price, currently about \$12.00 per barrel and 23% of the value is paid to the contracting parties at a price of approximately \$6.00 per barrel. After payout, the contracting parties receive revenue for 35% of the production value at the \$6.00 per barrel price.

U.K. North Sea

During 1974, Decalta participated in the drilling of a well on offshore Block 210/19 which lies northeast of the Shetland Islands. The well was drilled to 8,694 feet but no commercial oil or gas shows were encountered. Subsequent to drilling this well, seismic re-evaluations were made; a decision to drill a second well on the 49,000 acre Block 210/19 or on the southern North Sea Block 38/2, will be made later in 1975. Decalta's interest in both blocks is 5%.

Other Overseas Areas

In Norway, applications are still pending. In Kenya, an application for 1,200,000 acres is waiting on satisfactory Government legislation. The legislation dealing with oil and gas exploration is now progressing through the legislature and is expected to be passed in the near future. D.I.C. has a 50% interest in this seismic option. Negotiations are being conducted in a number of other countries at this time.

General

The Company has set up an office in Denver, Colorado to handle exploration and development of its various properties in the United States, particularly the producing and exploration properties of the Hickerson Oil Company, acquired in 1974.

Land Holdings

At year end, Decalta held varying interests in 22.8 million gross acres equivalent to 10.1 million net or wholly-owned acres in the countries and area shown in the tabulation below. While the over-all acreage position changed little from the last year, there were minor variations in the land holdings in certain areas.

Additional lands were acquired in Alberta and offshore Texas and minor relinquishments were made in Hudson Bay, the Northwest Territories, Saskatchewan and in Alaska and on continental U.S.A.

SUMMARY OF ACREAGE HOLDINGS

Area	Petroleum and Natural Gas Leases		Reservations, Licenses Permits (*)		Total	
	Gross	Net	Gross	Net	Gross	Net
Canada:						
Alberta	800,800	212,900	153,100	43,500	953,900	256,400
British Columbia	46,900	14,900	55,100	9,900	102,000	24,800
Hudson Bay	—	—	5,004,400	389,000	5,004,400	389,000
New Brunswick	5,453,000	5,453,000	—	—	5,453,000	5,453,000
Newfoundland (offshore)	—	—	1,630,200	738,500	1,630,200	738,500
Northwest Territories	23,000	17,300	3,206,600	1,386,300	3,229,600	1,403,600
Arctic Islands	—	—	5,221,300	1,284,100	5,221,300	1,284,100
Beaufort Sea	—	—	628,000	367,100	628,000	367,100
Ontario	59,800	59,800	—	—	59,800	59,800
Saskatchewan	58,700	20,800	—	—	58,700	20,800
United States:						
Alaska	74,900	6,700	—	—	74,900	6,700
Texas & Louisiana offshore	84,400	1,400	—	—	84,400	1,400
Other	93,900	41,400	6,300	2,500	100,200	43,900
Overseas:						
Indonesia	—	—	67,800	3,600	67,800	3,600
North Sea	—	—	106,400	5,300	106,400	5,300
Total	6,695,400	5,828,200	16,079,200	4,229,800	22,774,600	10,058,000

* Convertible into leases to the extent of approximately 50%.

DRILLING RESULTS — 1974

	Type of Well	Successful Gross	Wells Net
Canada:			
Alberta	Oil	11	8.2
Alberta	Gas	15	2.0
U.S.A.:			
Nebraska	Oil	1	0.3
North Dakota	Oil	1	0.1
Oklahoma	Gas	1	0.6
		<u>29</u>	<u>11.2</u>

WELLS DRILLED

	Gross Wells		Net Wells	
	1974	1973	1974	1973
Development:				
Oil	12	27	8.3	4.9
Gas	1	1	.6	0.2
Dry	1	3	.1	0.9
	<u>14</u>	<u>31</u>	<u>9.0</u>	<u>6.0</u>
Exploration:				
Oil	1	3	.3	.5
Gas	15	13	2.0	2.4
Dry	28	34	6.5	8.8
	<u>44</u>	<u>50</u>	<u>8.8</u>	<u>11.7</u>
TOTAL WELLS:	<u>58</u>	<u>81</u>	<u>17.8</u>	<u>17.7</u>

Drilling Activity

During 1974, Decalta participated in the drilling of 17.8 net (58 gross) development and exploratory wells compared with 17.7 net (81 gross) wells drilled in the previous year. While the Company participated in fewer wells in 1974 than in 1973, its averaged well participation was increased from 21.8% in 1973 to 31.9% in 1974.

Of the 58 gross completions, 41 were drilled in the Province of Alberta. About 63% of the total net wells drilled were completed as oil or gas producers. The geographic location and type of the successful wells are shown in the accompanying table.

The statistics, set out in the accompanying tabulations, do not include Decalta's participation in or the results of drilling in the Texas offshore area or overseas.

	1974	1973
Average Well Participation...	31.9%	21.8%
Success Ratios:		
Development..	91.8%	85.0%
Exploration.....	26.1%	24.8%

Employees

At the year end, Decalta and its subsidiaries employed 98 people, 3 more than at the beginning of the year. While the Company's staff was reduced by 7 people with the sale of its marginal producing property in New Brunswick, additional personnel were required in the accounting, land and production departments to handle an increasing work-load related to the Company's expanded operations in the United States. Total employment costs, including salaries, wages and employee benefits amounted to \$1,372,000 compared with \$1,215,000 last year. Additional information on employee compensation is shown on the accompanying table.

In addition to the above, the Western Decalta affiliate, Madison Natural Gas Company Limited, a company which owns and operates a gas processing plant at Turner Valley, employed 33 people. This group of employees was presented with a 1974 Safety Award by the Alberta Workers' Compensation Board for operating the gas plant 12 consecutive months accident free.

EMPLOYEE COMPENSATION AND CONTRIBUTIONS TO COMPANY BENEFIT PLANS

Thousands of dollars	1974	1973	1972
Salaries, wages and related items	\$1,241	\$1,101	\$894
Decalta's contributions to:			
Savings plan	24	19	16
Retirement plans	89	72	58
Group life and health plans	18	23	19
Totals	<u>\$1,372</u>	<u>\$1,215</u>	<u>\$987</u>
Employee contributions to:			
Savings plan	\$ 44	\$ 35	\$ 31
Retirement plans	46	39	35
Group life and health plans	14	12	10
Totals	<u>\$ 104</u>	<u>\$ 86</u>	<u>\$ 76</u>

Financial

Decalta's consolidated net income in 1974 of \$3,478,000 was a gain of 66.3% over 1973, after restatement of 1973 to reflect tax allocation accounting. Earnings per common share amounted to 42¢ and 25¢ respectively. The improved earnings reflect higher product prices partially offset by increased governmental royalty payments, higher taxes in Canada and major inflationary cost factors at home and abroad.

Gross income totalled \$14,430,000 during 1974 (\$10,316,000 in 1973) and total cash expenses were \$4,645,000 as compared with \$3,566,000 in the previous year.

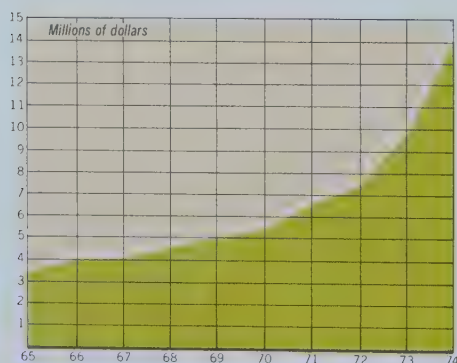
Cash flow from operations totalled \$9,785,000, a 45% increase over 1973 at \$6,750,000. Cash flow per share for 1974 and 1973 was \$1.19 and 82¢ respectively.

Decalta retroactively adopted tax allocation accounting and income taxes of \$1,925,000 have been recorded in 1974 as compared with \$1,070,000 in 1973. The income tax expense in 1974 represents deferred income taxes of \$1,615,000 and an income tax liability of \$310,000 whereas the \$1,070,000 in 1973 is all recorded as deferred income taxes.

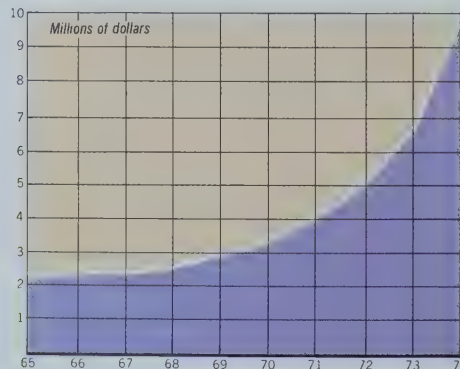
Expenditures for finding, developing and acquiring reserves amounted to \$11,484,000 in 1974; such outlays totalled \$13,210,000 in 1973. During 1974, expenditures in Canada amounted to \$4,518,000; in the United States, the Company borrowed \$4,678,000 of the \$5,200,000 spent in that country during the year. The major U.S. expenditure consisted of the acquisition of the producing and exploration properties of the Hickerson Oil Company located primarily in Kansas, Montana, North Dakota and Oklahoma at a cost of \$3,700,000. Overseas expenditures totalling \$1,667,000 were made in Indonesia, Guatemala and the North Sea. During 1974, the Company expended \$578,000 to increase its equity interest in its subsidiary, The Petrol Oil and Gas Company, Limited from 55.9% to 64.4%; the shares were acquired progressively during the year on the open market.

Working capital at the year end totalled \$834,000 (\$1,803,000 in 1973). The source of funds for the year came from cash flow from operations; from previously mentioned U.S. borrowings consisting of a bank loan of \$800,000 and a promissory note to a U.S. subsidiary of Hudson Bay Mining and Smelting Co., Limited of \$3,878,000.

Net Oil & Gas Sales



Cash Flow



Consolidated Balance Sheet

DECEMBER 31, 1974 and 1973

ASSETS	1974	1973
CURRENT:		
Cash	\$ 250,000	\$ 1,069,000
Short term investments at cost which approximates market	1,424,000	892,000
Accounts receivable	4,276,000	3,595,000
Income tax rebates receivable (Note 5)	600,000	
Inventory of materials at cost	919,000	204,000
Prepaid expenses	71,000	62,000
	<u>7,540,000</u>	<u>5,822,000</u>
REFUNDABLE DEPOSITS	38,000	38,000
PROPERTY AND EQUIPMENT AT COST:		
Oil and gas properties less accumulated depletion of \$25,828,000 (1973 — \$23,281,000)	47,523,000	40,379,000
Plant and equipment less accumulated depreciation of \$6,527,000 (1973 — \$6,201,000)	5,147,000	4,335,000
	<u>52,670,000</u>	<u>44,714,000</u>
OTHER:		
Sundry investments at cost	136,000	102,000
Debenture issue expense less amounts amortized	236,000	258,000
	<u>372,000</u>	<u>360,000</u>
	<u>\$60,620,000</u>	<u>\$50,934,000</u>
LIABILITIES		
CURRENT:		
Bank indebtedness — secured	\$ 1,325,000	
Accounts payable and accrued charges	3,996,000	\$ 3,862,000
Income taxes payable (Note 5)	910,000	
Accrued interest on long term debt	145,000	111,000
Current maturities of long term debt	330,000	46,000
	<u>6,706,000</u>	<u>4,019,000</u>
DEFERRED PRODUCTION INCOME	664,000	3,003,000
LONG TERM DEBT (Note 3)	15,257,000	11,099,000
DEFERRED INCOME TAXES	8,310,000	6,695,000
MINORITY INTEREST IN SUBSIDIARY COMPANIES	2,478,000	2,391,000
SHAREHOLDERS' EQUITY		
Capital (Note 4)		
Authorized — 600,000 preferred shares of \$25 par value each		
10,000,000 common shares of \$1 par value each		
Issued — 8,208,425 common shares	8,209,000	8,209,000
Contributed surplus	10,614,000	10,614,000
Retained earnings	8,382,000	4,904,000
	<u>27,205,000</u>	<u>23,727,000</u>
	<u>\$60,620,000</u>	<u>\$50,934,000</u>

On behalf of the Board:

 Director.

 Director.

Consolidated Statement of Income

	FOR THE YEARS ENDED DECEMBER 31	
	1974	1973
Net oil and gas sales	\$14,266,000	\$ 9,949,000
Interest and other income	164,000	367,000
	<u>14,430,000</u>	<u>10,316,000</u>
Deduct:		
Production expenses	2,866,000	2,468,000
General and administrative expenses net of management fees earned	335,000	223,000
Interest expense	1,444,000	875,000
	<u>4,645,000</u>	<u>3,566,000</u>
Cash flow from operations	<u>9,785,000</u>	<u>6,750,000</u>
Deduct:		
Depreciation and depletion	3,955,000	3,381,000
Amortization of debenture issue expense	22,000	23,000
Discount on debentures purchased for cancellation	(28,000)	(72,000)
	<u>3,949,000</u>	<u>3,332,000</u>
Income before income taxes	5,836,000	3,418,000
Income taxes (Note 5)	1,925,000	1,070,000
Income before minority interest	<u>3,911,000</u>	<u>2,348,000</u>
Income applicable to minority interest	433,000	257,000
Net income for the year (Note 2)	<u>\$ 3,478,000</u>	<u>\$ 2,091,000</u>
Net income per common share (Note 6)	42¢	25¢

Consolidated Statement of Retained Earnings

	FOR THE YEARS ENDED DECEMBER 31	
	1974	1973
Retained earnings at beginning of year		
As previously reported	\$10,964,000	\$ 7,940,000
Less adjustment of prior years' income taxes net of minority interest	6,060,000	5,127,000
As restated	4,904,000	2,813,000
Net income for the year	<u>3,478,000</u>	<u>2,091,000</u>
Retained earnings at end of year	<u>\$ 8,382,000</u>	<u>\$ 4,904,000</u>

Consolidated Statement of Contributed Surplus

	FOR THE YEARS ENDED DECEMBER 31	
	1974	1973
Balance at beginning of year	\$10,614,000	\$10,603,000
Premium on shares issued during year		11,000
Balance at end of year	<u>\$10,614,000</u>	<u>\$10,614,000</u>

See accompanying notes.

Consolidated Statement of Changes in Financial Position

	FOR THE YEARS ENDED DECEMBER 31	
	1974	1973
Source of funds:		
Cash flow from operations	\$ 9,785,000	\$ 6,750,000
Less income taxes payable	310,000	
	<u>9,475,000</u>	<u>6,750,000</u>
Sale of production payments		1,125,000
Production bank loans	800,000	600,000
Issue of promissory note	3,878,000	
Issue of 6% Unsecured Convertible Redeemable Income Debenture		1,300,000
Issue of capital stock		17,000
Other		38,000
	<u>14,153,000</u>	<u>9,830,000</u>
Application of funds:		
Additions to property and equipment	11,677,000	13,287,000
Repayment and current maturities of debentures net of discounts	372,000	328,000
Repayment of production bank loans	120,000	
Retirement of production payments	2,339,000	3,567,000
Purchase of shares of The Petrol Oil & Gas Company, Limited, a subsidiary company	578,000	418,000
Other	36,000	
	<u>15,122,000</u>	<u>17,600,000</u>
Decrease in working capital	969,000	7,770,000
Working capital at beginning of year	1,803,000	9,573,000
Working capital at end of year	<u>\$ 834,000</u>	<u>\$ 1,803,000</u>

See accompanying notes.

Auditors' Report

To the Shareholders of
WESTERN DECALTA PETROLEUM LIMITED.

We have examined the consolidated balance sheet of Western Decalta Petroleum Limited and its subsidiary companies as at December 31, 1974 and 1973 and the consolidated statements of income, retained earnings, contributed surplus and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of Western Decalta Petroleum Limited and its subsidiary companies as at December 31, 1974 and 1973, the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change to income tax allocation accounting, which we approve, as explained in Note 2 to the consolidated financial statements.

Calgary, Canada.
February 20, 1975.

CLARKSON, GORDON & CO.
Chartered Accountants.

Notes to Consolidated Financial Statements

DECEMBER 31, 1974 and DECEMBER 31, 1973

1. Summary of accounting policies

(a) CONSOLIDATION

The consolidated financial statements include the accounts of all subsidiaries. The excess of the unamortized cost of purchased subsidiaries over the related net asset values at dates of purchase is included in oil and gas properties.

(b) FULL-COST METHOD OF ACCOUNTING

The companies follow the full-cost method of accounting wherein all costs relative to the exploration for and development of oil and gas reserves, whether productive or non-productive, are capitalized. Costs associated with operations in Continental North America are depleted on the composite unit of production method based on estimated proven reserves of oil and gas. Offshore Texas and Louisiana leases are carried in a separate cost centre and such expenditures will be depleted when production commences (currently anticipated in 1976 or 1977). Overseas expenditures are carried in separate cost centres, essentially on a country by country basis, and are amortized on a 10% straight line basis until oil and gas reserves are determined, at which time the unamortized balances will be depleted.

(c) DEPRECIATION

Depreciation of plant and equipment is provided at rates which are designed to amortize cost over the estimated useful life of these assets. The companies depreciate lease and well equipment (10%) and gas plants (5%) on the straight line basis and other tangible assets on the reducing balance basis.

(d) FOREIGN EXCHANGE

Foreign exchange transactions are recorded as follows: current assets and current liabilities at the rate of exchange in effect as at the balance sheet date, fixed assets at the average rate of exchange for the year of acquisition, and revenue and expenses at the average rate of exchange for the year.

(e) INCOME TAXES

The companies follow tax allocation accounting whereby deferred income taxes are provided to the extent that current income taxes have been reduced as a result of claiming deductions for capital cost allowances and drilling, exploration and lease acquisition costs in excess of the related charges in the accounts.

(f) DEFERRED PRODUCTION INCOME

Proceeds from the sales of the production payments have been deferred in the accounts and are reflected in income as the related oil and gas reserves are produced and sold. These arrangements are of a short term nature.

2. Change in accounting policy

In previous years the companies followed the policy of recording income taxes only to the extent they were currently payable. As of January 1, 1974 the companies retroactively adopted tax allocation accounting. The effect of this change was to decrease 1974 net income by \$1,218,000 or 15¢ per share (\$933,000 or 12¢ per share in 1973). The 1973 amounts in the accompanying financial statements have been restated accordingly.

3. Long term debt

	1974	1973
Production bank loans	\$ 1,280,000	\$ 600,000
Promissory note	3,878,000	
6% Sinking Fund Debentures Series A due June 1, 1985	4,129,000	4,245,000
7% Convertible Sinking Fund Debentures Series B due September 30, 1985	5,000,000	5,000,000
6% Unsecured Convertible Redeemable Income Debenture due December 31, 1985	1,300,000	1,300,000
	<u>15,587,000</u>	<u>11,145,000</u>
Deduct:		
Sinking fund instalments on Series A Debentures due within one year	330,000	46,000
	<u>\$15,257,000</u>	<u>\$11,099,000</u>

The production bank loans are secured by assignment of the companies' interest in certain oil and gas producing properties and are repayable out of the proceeds of production from such properties.

The promissory note is payable in U.S. dollars and is not repayable prior to 1976. Interest is payable at the rate of 1% per annum over the London Inter Bank Offered Rate for 90-day money.

The 6% Sinking Fund Debentures Series A and the 7% Convertible Sinking Fund Debentures Series B are secured by a first floating charge on the undertaking, property and assets of the Company. The Series A Debentures are subject to annual sinking fund payments of \$400,000 until 1984. In 1974 and 1973 the sinking fund instalments were reduced by \$70,000 and \$354,000 respectively by purchase of debentures for cancellation. The Series B Debentures are subject to sinking fund payments of \$275,000 in 1979 and thereafter in each year until 1984 and may be redeemed at any time. The Series B Debentures are convertible at any time prior to the close of business on October 1, 1978 on the basis of 200 common shares for each \$1,000 principal amount of the Debentures.

The 6% Unsecured Convertible Redeemable Income Debenture is convertible into common shares of the Company at the rate of 15 common shares for each \$100 principal amount of the Debenture.

4. Capital and reservation of shares

No shares were issued in 1974; in 1973 the Company issued 5,500 common shares on the exercise of options for \$17,000 cash.

At December 31, 1974 and 1973, common shares were reserved as follows:

	<u>1974</u>	<u>1973</u>
For exercise of an option granted under an Employees' Stock Option Plan at \$6.25 per share exercisable to 1977 (options to purchase 229,500 shares were cancelled during 1974)	5,000	234,500
For conversion of the 7% Convertible Sinking Fund Debentures Series B	1,000,000	1,000,000
For conversion of the 6% Unsecured Convertible Redeemable Income Debenture	195,000	195,000
	<u>1,200,000</u>	<u>1,429,500</u>

5. Income taxes

On November 18, 1974 the Canadian Government introduced budgetary proposals to amend the Income Tax Act. These included a number of changes, several having retroactive effect to the date of an earlier budget on May 6, 1974, that will substantially increase the income taxes of the resource industries. The proposals, among other measures, deny the deduction of royalties and similar payments to governments and impose limitations on the deduction of certain development expenses and depletion allowances. They are accompanied by some reduction in the rate of income tax applicable to resource production profits. Responding to this action, some provinces are proposing certain rebates in order to provide a measure of relief to resource companies from the additional Federal tax levies. Since the legislative amendments have not yet been enacted and some of the proposals by provincial governments have not yet been set out in sufficient detail to remove doubt as to their ultimate effect, their impact has been estimated for the purposes of the 1974 income tax provision.

6. Earnings per share

Net income per common share is computed on the basis of the weighted average number of shares outstanding during the year. The conversion of outstanding convertible debt would result in net income per common share, on a fully diluted basis, of 40¢ in 1974 (25¢ in 1973). The exercise of options would not be dilutive.

7. Statutory information

Included in charges against income are the following:

	Year Ended December 31	
	<u>1974</u>	<u>1973</u>
Remuneration of directors and officers —		
Aggregate remuneration of ten directors as directors	\$ 4,000	\$ 5,000
Aggregate remuneration of six officers (two officers are also directors)	256,000	228,000
Interest on long - term debt	1,082,000	620,000
Depreciation and depletion —		
Depreciation of plant and equipment	762,000	730,000
Depletion of oil and gas properties	3,193,000	2,651,000

Managements' Analysis of the Summary of Operations

ITEM NO.

4 **Gross Product Sales** (before royalties) totalled \$19.5 million in 1974, up \$7.7 million over 1973. Improved product prices of \$7.9 million were slightly offset by lower sales volumes of \$0.2 million. Increases during 1970 - 1973 result from combinations of higher volumes and modest price changes. (see items 28 to 31).

8 **Royalty Expenses** in Canada increased from \$1.9 million in 1973 to \$5.2 million in 1974 chiefly as a result of Alberta's royalty structure changes in 1973 and 1974. For further discussion of these changes, see page 8.

13 **Royalty Revenue** increased by \$182 thousand in 1974 as a result of improved prices (\$137 thousand) and higher volumes of crude oil (\$45 thousand) arising from a new royalty acquisition in 1974.

14 **Net Oil and Gas Sales** is the summation of items 4, 7 and 13.

15 **Interest and Other Income** improved and **Interest Expense** declined in the years 1972 and 1973. In January 1972, the Company issued one million common shares in the United States. The proceeds from this issue was used to reduce bank loans and the balance was invested in short term securities until re-invested in offshore Texas properties in 1973. The increase in interest expense (item 19) in 1974 reflects the costs of funds borrowed to acquire producing and exploration properties in the United States.

ITEM NO.

17 **Production Expenses** include the costs of operating oil and gas wells, related field equipment and gas plant facilities. The increase in these costs during the period 1970 to 1974 reflect both the Company's growth and in later years the additional effects of inflation on labor, equipment maintenance, property taxes and other lease operating expenses.

18 **General and Administrative Expenses** include overhead and general costs of administrative, engineering and accounting functions, offset by management and overhead fees recovered, which usually amount to 60% to 70% of the total costs. The \$112 thousand increase in 1974 includes generally higher salaries and additional personnel required to handle an increasing work-load related to expanded operations in the United States.

22 **Depreciation and Depletion** charges during the period 1970 to 1974 have increased due to larger volumes of petroleum products produced and to a higher unit depletion charge arising from increasing costs of exploration and development. Commencing in 1974, overseas expenditures were amortized on a 10% straight line basis until oil and gas reserves are determined (see Note 1(b) to Consolidated Financial Statements).

24 **Income Tax** provisions are directly related to corporate earnings. Recent changes in the Canadian federal and provincial income tax laws are discussed on page 8; additional information is also available in Note 5 to Consolidated Financial Statements.

Five Year Financial Review (1)

(thousands of dollars, except per share amounts)

	1974	1973	Change 74/73	I T E M	1972	1971	1970
Income							
Oil and natural gas liquids sales . . .	\$17,573	\$10,350	\$7,223	1	\$7,354	\$6,519	\$5,167
Natural gas sales	1,872	1,420	452	2	1,423	1,294	1,304
Sulphur sales	16	7	9	3	3	6	1
Gross product sales	19,461	11,777	7,684	(4)	8,780	7,819	6,472
Canada	17,392	10,878	6,514	5	8,327	7,298	6,068
United States	2,069	899	1,170	6	453	521	404
Royalty expense	5,534	1,985	3,549	(7)	1,256	1,156	935
Canada	5,196	1,859	3,337	(8)	1,191	1,076	875
United States	338	126	212	9	65	80	60
Net product sales	13,927	9,792	4,135	10	7,524	6,663	5,537
Canada	12,196	9,019	3,177	11	7,136	6,222	5,193
United States	1,731	773	958	12	388	441	344
Royalty revenue	339	157	182	(13)	104	84	67
Net oil and gas sales	14,266	9,949	4,317	(14)	7,628	6,747	5,604
Interest and other income	164	367	(203)	(15)	446	174	196
Gross income	14,430	10,316	4,114	16	8,074	6,921	5,800
Cash Expenses							
Production	2,866	2,468	398	(17)	1,976	1,585	1,270
General & administrative (net) . . .	335	223	112	(18)	213	289	212
Interest	1,444	875	569	(19)	841	967	934
Cash Flow	9,785	6,750	3,035	20	5,044	4,080	3,384
Per share	1.19	0.82	0.37	21	0.62	0.57	0.48
Other Costs							
Depreciation and depletion	3,955	3,381	574	(22)	2,807	2,401	2,069
Debenture issue items	(6)	(49)	43	23	(47)	(90)	(82)
Income taxes	1,925	1,070	855	(24)	750	665	525
Minority interests	433	257	176	25	173	150	119
Net Income (2)	3,478	2,091	1,387	26	1,361	954	753
Per share	0.42	0.25	0.17	27	0.17	0.14	0.11
Gross Production and Prices							
Oil and natural gas liquids (thousands of barrels)	3,065	3,126	(61)	28	2,723	2,373	2,026
Average price — \$/bbl	5.73	3.31	2.42	29	2.70	2.75	2.56
Natural gas — millions of cubic feet	7,355	7,379	(24)	30	7,918	6,139	6,215
Average price — ¢/mcf	25.5	19.2	6.3	31	18.0	21.1	20.5

(1) The above statistics are for Western Decalta Petroleum Limited and its subsidiary companies at December 31.

(2) Tax allocation accounting was retroactively adopted in 1974 and previous years have been restated accordingly.

Five Year Financial Review

(thousands of dollars)

	1974	1973	1972	1971	1970
Balance Sheet Data					
Working capital	\$ 834	\$ 1,803	\$ 9,573	\$ 2,226	\$ 3,529
Property and equipment — net	52,670	44,714	34,689	32,896	30,345
Long term debt	15,257	11,099	9,599	9,999	10,399
Deferred production income	664	3,003	5,445	5,077	5,401
Minority interest in subsidiaries	2,478	2,391	2,435	2,277	2,031
Deferred income taxes	8,310	6,695	5,625	4,875	3,968
Shareholders' equity	27,205	23,727	21,619	13,285	12,493
Other Data					
Shares outstanding (thousands of shares)	8,208	8,208	8,203	7,130	7,113
Number of shareholders	6,478	6,428	6,508	5,599	5,756
Number of employees	98	95	87	81	84
Expenditures for Finding and Developing Production					
Land acquisitions and rentals	6,067	9,184	796	748	546
Geological and geophysical	1,071	978	1,298	904	457
Dry holes	940	966	1,125	759	534
Productive drilling	2,112	596	328	218	261
Production equipment	1,294	1,486	905	541	679
Capital assets of acquired companies	—	—	—	1,749	—
Total	11,484	13,210	4,452	4,919	2,477
Classification					
Exploration	3,198	2,640	3,201	2,419	1,401
% of total	28	20	72	49	57
Development	8,286	10,570	1,251	2,500	1,076
% of total	72	80	28	51	43
Source and Application of Funds					
Cash flow from operations less income taxes payable	9,475	6,750	5,044	4,080	3,384
Sale of production payments	—	1,125	2,735	3,165	4,005
Addition to long term debt	4,678	1,900	—	—	—
Issue of capital stock	—	17	6,974	53	779
Other sources	—	38	—	127	26
Total sources of funds	14,153	9,830	14,753	7,425	8,194
Expenditures for finding and developing production	11,484	13,210	4,452	4,919	2,477
Other capital outlays	193	76	164	33	56
Retirement of production payments	2,339	3,567	2,367	3,489	2,311
Repayments of long term debt	492	328	331	287	996
Other applications	614	419	92	—	99
Total application of funds	15,122	17,600	7,406	8,728	5,939
Increase (decrease) in working capital	(969)	(7,770)	7,347	(1,303)	2,255

Five Year Review of Operations *(Exploration and Production)*

	1974	1973	1972	1971	1970
Land					
<i>(Thousands of net acres)</i>	10,058	10,110	10,118	10,870	11,302
Canada					
Alberta	256	224	202	183	166
British Columbia	25	23	23	26	13
Hudson Bay	389	394	421	490	781
New Brunswick	5,453	5,453	5,453	5,453	5,453
Newfoundland	739	739	739	739	739
Northwest Territories	1,403	1,490	1,513	2,103	2,216
Arctic Island	1,284	1,284	1,284	1,284	1,284
Beaufort Sea	367	367	367	367	364
Ontario	60	60	61	153	188
Saskatchewan	21	24	24	41	70
United States					
Alaska	7	19	19	20	20
Texas Offshore	1	1	—	—	—
Other	44	22	7	11	8
Overseas					
Indonesia	4	5	—	—	—
U.K. North Sea	5	5	5	—	—
Gross Oil and Natural Gas Liquids Production					
<i>(Thousands of barrels)</i>	3,065	3,126	2,723	2,373	2,026
Alberta					
Fenn	58	61	42	30	27
Joarcam	37	39	38	37	35
Mitsue	292	305	255	269	243
Pembina (Cardium)	391	444	477	502	472
(Belly River)	290	255	114	96	76
Red Coulee	14	39	98	125	77
Rimbey	71	77	55	61	68
Simonette	319	213	178	136	114
Sturgeon Lake South	195	238	223	195	197
Swan Hills	41	42	36	33	29
Turner Valley	296	315	359	97	94
Wainwright	220	230	233	192	24
West Drumheller	318	344	188	154	144
Other Fields	88	100	114	105	100
Total — Alberta	2,630	2,702	2,410	2,032	1,700
British Columbia	62	57	54	65	59
Saskatchewan	115	115	113	112	127
New Brunswick	—	12	9	9	7
Total — Canada	2,807	2,886	2,586	2,218	1,893
California	92	93	—	—	—
Montana	62	79	109	126	104
North Dakota	39	8	—	—	—
Texas	26	31	27	27	25
Wyoming	32	27	1	2	4
Other States	7	2	—	—	—
Total — U.S.A.	258	240	137	155	133
Average Daily — Barrels	8,396	8,565	7,440	6,501	5,551
Average Price — \$/bbl.	5.73	3.31	2.70	2.75	2.56

Five Year Review of Operations *(Exploration and Production)*

Natural Gas Deliveries

	1974	1973	1972	1971	1970
(millions of cubic feet)	7,355	7,379	7,918	6,139	6,215
Alberta					
Ashmont	136	96	112	66	166
Athabasca	110	119	132	125	114
Bittern Lake	54	69	111	117	124
Ghost Pine	1,207	1,374	1,398	1,274	1,454
Gilby	422	358	351	322	363
Hussar-Mallow	186	58	232	235	—
Mitsue	102	107	99	106	51
Pembina	139	139	146	227	206
Rimbey	976	1,003	970	979	968
Simonette	694	427	399	302	218
Sturgeon Lake South	163	155	137	121	122
Turner Valley	1,261	1,353	1,902	234	258
Other fields	149	101	127	98	88
Total — Alberta	5,599	5,359	6,116	4,206	4,132
British Columbia	30	30	9	21	—
Saskatchewan	38	50	44	60	141
Ontario	683	1,338	1,552	1,592	1,739
New Brunswick	—	81	94	105	132
Total — Canada	6,350	6,858	7,815	5,984	6,144
California	25	26	—	—	—
Oklahoma	646	63	—	—	—
Texas	92	112	103	155	71
Wyoming	235	314	—	—	—
Other States	7	6	—	—	—
Total U.S.A.	1,005	521	103	155	71
Average Daily — mmcf	20.2	20.2	21.6	16.8	17.0
Average Price — ¢/mcf	25.5	19.2	18.0	21.1	20.5

Drilling Activity

Gross wells completed	58	81	66	59	50
Net wells completed	17.8	17.7	11.2	14.7	11.6
Exploratory					
Oil	0.3	0.5	0.6	0.6	0.6
Gas	2.0	2.4	1.8	1.5	1.9
Dry	6.5	8.8	5.0	7.7	5.8
Development					
Oil	8.3	4.9	1.8	3.8	2.8
Gas	0.6	0.2	0.7	0.1	0.1
Dry	0.1	0.9	1.3	1.0	0.4

Reserves (3)

Oil and natural gas liquids (thousands of barrels)	35,564	36,528	37,347	35,833	33,654
Gas (billions of cubic feet)	228	217	200	200	208
Sulphur (thousands of long tons)	647	645	643	643	645

(3) Includes proven and probable additional reserves before deducting royalties and excludes minority interests in subsidiary companies.

Principal Subsidiaries

The Petrol Oil & Gas Company, Limited

Decalta owns 64.4% of the 3,995,000 outstanding shares of The Petrol Oil & Gas Company, Limited, which is engaged in the exploration and production of oil and gas primarily in Western Canada, the Arctic Islands and elsewhere in the Northwest Territories. This subsidiary participates in Decalta's land acquisition and drilling programs, its interest being 15% of Decalta's participating interest. Petrol participates in U.S. and overseas operations through its 15% equity interest in Decalta International Corporation.

Petrol's consolidated net income in 1974 was \$964,000 (\$411,000 in 1973). Earnings per common share amounted to 24.1¢ in 1974 (10.3¢ in 1973). Cash flow from operations amounted to \$1,837,000 in 1974 (\$1,053,000 in 1973). Cash flow per share for the comparative years was 46¢ and 26¢ respectively.

Consolidated West Petroleum Limited

Decalta owns 92.6% of the 1,329,088 outstanding shares of Consolidated West Petroleum Limited. Revenues of this subsidiary are chiefly derived from producing gas wells underlying Lake Erie, Ontario, where it owns extensive acreage and from various oil and gas properties in Alberta. Consolidated West Petroleum Limited also participates in U.S. and overseas operations with a 15% equity interest in Decalta International Corporation.

Net income during 1974 totalled \$93,000 (\$200,000 in 1973). Cash flow decreased from \$527,000 in 1973 to \$354,000 in 1974, resulting primarily from a curtailment of gas production in Ontario necessitated by a seven month labour strike at the Union Gas Plant.

Western & Texas Oil Co. Limited

Decalta owns 88.4% of the 3,222,953 outstanding common shares and 99% of the 1,250,000 outstanding preferred shares of Western & Texas Oil Co. Limited. This subsidiary is engaged in the exploration and production of oil and gas primarily in Alberta. Net income amounted to \$471,000 in 1974 (\$210,000 in 1973). Cash flow in 1974 totalled \$968,000 (\$547,000 in 1973).

South Brazeau Petroleums Limited

Western Decalta owns 63.7% of the 5,000,000 outstanding common shares of South Brazeau Petroleums Limited. Net income in 1974 amounted to \$75,000 (\$39,000 in 1973). Cash flow for 1974 amounted to \$164,000 (\$107,000 in 1973).

Decalta International Corporation

Western Decalta and subsidiaries own 100% of the outstanding common and preferred shares of Decalta International Corporation; after providing for the minority interests in such subsidiaries, Western Decalta's interest is 93.6%.

Decalta International Corporation was incorporated in 1972 to serve as Western Decalta's operating company in an expanded program of acquisition and exploration in the United States and overseas. D.I.C. holds producing and exploration properties acquired from U.S. Natural Resources Inc. in 1973 and from Hickerson Oil Company in 1974. It also holds interests in 16 tracts offshore Texas and Louisiana as well as interests in Guatemala and Indonesia.

Net income in 1974 amounted to \$13,000 (\$43,000 in 1973) and cash flow for 1974 was \$611,000 (\$213,000 in 1973). The low net income relative to cash flow results from depletion of overseas expenditures on a 10% straight line basis and interest expense on its investments in offshore Texas and overseas which are not expected to contribute to income until 1977.

** All subsidiary companies adopted retroactively tax allocation accounting and 1973 figures have been restated accordingly. Western Decalta provides managerial and technical services for each of these subsidiaries.*

Decalta's Interests in Subsidiaries

Companies	Decalta's Interest	Incorporated Under the Laws of	Main Areas of Operations
ALBERMONT PETROLEUMS INCORPORATED.....	100.0%	Montana	Montana and Texas
DECALTA OIL DEVELOPMENTS LTD.....	100.0%	Canada	Western Canada
DECALTA OIL ENTERPRISES, INC.	100.0%	Montana	Montana
DECALTA INTERNATIONAL CORPORATION	93.6%	Montana	United States and Foreign
DECALTA INTERNATIONAL (GUATEMALA) CORPORATION.....	93.6%	Montana	Guatemala
WESTERN DECALTA (U.K.) LIMITED.....	100.0%	United Kingdom	North Sea
DECALTA (NORWAY) A/S	100.0%	Norway	North Sea
ASSINIBOINE PETROLEUMS LTD.	100.0%	Alberta	Alberta
CONSOLIDATED WEST PETROLEUM LIMITED	92.6%	Ontario	Lake Erie, Ontario and Western Canada
NEW BRUNSWICK OILFIELDS, LIMITED	82.0%	New Brunswick	New Brunswick
SOUTH BRAZEAU PETROLEUMS LIMITED	63.7%	Alberta	Alberta
THE PETROL OIL & GAS COMPANY, LIMITED	64.4%	Ontario	Western Canada
THE PETROL OIL & GAS CORPORATION	*	Delaware	Texas and Oklahoma
PETROL MINERAL ENTERPRISES LTD.....	*	British Columbia	Alberta
WESTERN & TEXAS OIL CO. LIMITED.....	88.4%	Ontario	Alberta

All of Western Decalta's companies are engaged in oil and gas exploration and production in the areas designated.

** Wholly-owned subsidiaries of The Petrol Oil & Gas Company, Limited.*

Directors

Alan T. Christie, White Plains, New York
Private Investments

Kenneth S. Dalton, Toronto, Ontario
Vice-President — Finance of Hudson
Bay Mining and Smelting Co., Limited

Jean Debray, Toronto, Ontario
Executive Vice-President of Francana Oil & Gas Ltd.
Vice-President — Petroleum of Hudson
Bay Mining and Smelting Co., Limited

Henry Ronald Fraser, Toronto, Ontario
Chairman and Chief Executive Officer of Hudson Bay Mining
and Smelting Co., Limited
Chairman of Anglo American Corporation of Canada Limited

Ralph C. C. Henson, Toronto, Ontario
Director of Standard Securities Limited

Charles S. Lee, Calgary, Alberta
Chairman and Chief Executive Officer of the Company
President of The Petrol Oil & Gas Company, Limited
Director of Hudson Bay Mining and Smelting Co., Limited

F. Richard Matthews, Q.C., Calgary, Alberta
Partner in MacKimmie Matthews
Barristers and Solicitors

Harold A. McKenzie, Toronto, Ontario
President of Hudson Bay Mining and Smelting Co., Limited
Director of Anglo American Corporation of Canada Limited

Alastair H. Ross, Calgary, Alberta
President of the Company
Vice-President of The Petrol Oil & Gas Company, Limited
President of Consolidated West Petroleum Limited

John David Taylor, Q.C., Toronto, Ontario
President of Anglo American Corporation of Canada Limited
Director of Hudson Bay Mining and Smelting Co., Limited

Officers

C. S. Lee, Chairman and Chief Executive Officer
A. H. Ross, President
E. L. Morris, Vice-President, Production
A. M. Patterson, Vice-President, Exploration
L. G. Elhatton, Secretary
R. A. Robinson, Treasurer

Operating Management

J. H. Lefavre, Land Manager
W. G. Tyler, Chief Engineer
D. J. Wigham, Regional Geological Manager

Corporate

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Registrars and Transfer Agents for Shares

Crown Trust Company —
401 8th Avenue S.W., Calgary, Alberta T2P 1E4
302 Bay Street, Toronto, Ontario M5H 2P4
455 Howe Street, Vancouver, British Columbia V6C 2B2
393 St. James St. West, Montreal, Quebec H2Y 1P2

First National City Bank —
55 Wall Street, New York, N.Y. 10005

Bank of America — National Trust and Savings Association
111 West Seventh Street, Los Angeles, California 90014

Registrar and Transfer Agents for Debentures

Guaranty Trust Company of Canada —
Calgary, Toronto, Montreal, Vancouver

Bankers

The Royal Bank of Canada — Calgary, Alberta

Auditors

Clarkson, Gordon & Co. — Calgary, Alberta

Shares Listed (symbol WDC)

Toronto Stock Exchange
Calgary Stock Exchange
American Stock Exchange
Pacific Coast Stock Exchange

Subsidiary Companies

Albermont Petroleums Incorporated
Assiniboine Petroleums Ltd.
Consolidated West Petroleum Limited
Decalta International Corporation
Decalta International (Guatemala) Corporation
Decalta (Norway) A/S
Decalta Oil Developments Ltd.
Decalta Oil Enterprises, Inc.
New Brunswick Oilfields, Limited
South Brazeau Petroleums Limited
The Petrol Oil & Gas Company, Limited
Western Decalta (U.K.) Limited
Western & Texas Oil Co. Limited

Affiliated Company

Madison Natural Gas Company Limited



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